

Kahawatta Pradeshiya Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kahawatta Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, cash flow statement for the year then ended including a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 172 (1) of the Pradesiya Sabha Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Kahawatta Pradeshiya Sabha as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha
- Whether the Pradeshiya Sabha has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No 19 of 2018.

- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No 19 of 2018.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The expenditure of the development projects totalling Rs. 3,298,821 executed during the year under review had not been capitalized and as such the balance of the land and buildings account and the balance of the revenue contribution to capital outlay account had been under stated by same amount.	It has been informed that, action will be taken to rectify in preparing final accounts of the year 2021.	The Development projects expenditure should be capitalized.
(b) The fixed assets auctioned during the year under review totalling Rs. 5,244,973 had not been eliminated from the cost accounts and as such the non-current assets had been overstated by same amount.	It has been informed that, it will be rectified in preparing accounts of the year 2021.	The value of the assets removed should be eliminated from the ledger accounts.
(c) The land acquired from a land auction in the year under review valued at Rs. 4,312,500 had not been brought to account and as such the balance of the revenue contribution to capital outlay account had been under stated by same amount.	It has been informed that, it will be rectified in preparing accounts of the year 2021.	The fixed assets acquired should be correctly accounted for.
(d) The bills of works, businesses tax relating to the year under review had been brought to account understating by Rs. 72,410 and as such the surplus had been under stated by same amount.	It has been informed that, it will be rectified in preparing accounts of the year 2021.	The revenue relating to the year should be correctly identified and accounted for.
(e) A sum of Rs. 100,000 received for prevention of Corona disease had been adjusted to the accumulated fund without being adjusted as revenue of the year under review. Therefore, the accumulated fund had been overstated and the surplus of the year had been understated by similar amounts.	It has been informed that, it will be rectified in preparing account in the year 2021.	The revenue relating to the year should be correctly identified and accounted for.

1.6.2 Lack of Written Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
The required information for audit relating to 03 items of accounts totalling Rs. 1,978,222 had not been furnished.	It has been informed that, the information relating to the above could not be found	The evidence required to confirm the account balances should be furnished.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Comments of the Sabha	Recommendation
Financial Regulations of the Democratic socialist Republic of Sri Lanka Financial Regulation 371(5)	The advances granted in 04 instances during the period from the year 2011 to 2020 totalling Rs. 1,086,991 had not been settled.	It has been informed that, the advances up to 16 April 2021 were not settled.	Action should be taken to settle the advances immediately after the completion of the purpose.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha, for the year ended 31 December 2020 amounted to Rs. 8,016,690 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs. 4,222,608.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

Audit Observation	Comments of the Sabha	Recommendation
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(a.) Rates and Taxes

- i. An arrears amounting to Rs. 1,353,985 relating to 1340 units of rates had existed as at the end of the year under review while action had not been taken. It has been informed that, the approval of the Governor had been requested to write off the arrears. Prompt action should be taken to recover revenue receivable to the Sabha.

been taken to recover those arrears.

arrears of rates of several unidentified assessment properties which had remained in arrear for a long period from the books and action had not been taken to restrain of properties in the current year considering the prevailing epidemic situation.

- ii. Action had not been taken to recover the balances of the acreage tax amounting to Rs. 68,886 receivable from 151 units of acreage tax by the end of the year review.

It has been informed that, the property owners had been informed by letters to recover arrears of acreage tax and action is being taken to eliminate the divided lands from the registers identified by the verification of acreage tax.

Prompt action should be taken to recover revenue receivable.

(b.) Lease Rental

A sum of Rs. 108,410 recoverable which had been in arrears for a period from 01 and 03 years from trade stalls No: 41 and No.42 belonging to the Sabha had not been recovered by the end of the year under review.

It has been informed that, action is being planned to take over the trade stalls which had not paid rental to the Sabha.

The revenue receivable to the Sabha should be recovered immediately.

(c.) Court Fines and Stamp Fees

The stamp fees valued at Rs. 4,303,100 receivable from September to December 2020 from the Chief Secretary of the Provincial Council and other authorities had not been recovered.

It has been informed that, the value of the stamp fees had not been identified due to non-receiving of schedules of the first half of the year 2019 and the year 2020.

The revenue receivable for the year should be identified and recovered.

3. Operating Review

The matters observed in respect of the activities that should be carried out by the Sabha, such as regularise and control over the matters of public health, public utility services and thoroughfares and the comfort, facilities and well being of the people under Section 3 of the Pradeshiya Sabha Act are given below.

3.1 Operating Inefficiencies.

Audit Observation	Comments of the Sabha	Recommendation
(a) Even though, the possession of the land of 10 acres owned by the Land Reform Commission had been handed over to the Kahawatta Development Council sub office for the Endana Urban Development Planning Scheme on 05 December 1985, the Sabha had not taken action to acquire its ownership in writing. At present about 07 acres of the land had been acquired by outsiders while no action what so ever had been taken to take over the remaining 03 acres of land to the Sabha.	It has been informed that, it is difficult to carry out development works in the Endana town at present, because the Land Reform Commission had not provided the land by a deed and they issued new deeds to other persons from time to time.	Action should be taken to acquire the land extent belonging to the Sabha.
(b) A sum of Rs. 140,900 had been incurred to print 268 Diaries for the year 2020 on the approval given by the Sabha decision No: 7-35 dated 12 December 2019.	It has been informed that, the diaries had been distributed to the Chairman, Members of the Sabha, Secretary and other staff of the Sabha, other public institutions and banks.	Sabha funds should be utilized according to the Section 132 of the Pradeshiya Sabha Act.

4. Accountability and Good Governance

4.1 Environmental Problems

Audit Observation	Comments of the Sabha	Recommendation
A cost of Rs. 10,263,475 and 15 employees of the staff and 02 vehicles and machinery and equipment had been utilized to dispose about 840 metric tons of solid waste in the authoritative area of the Sabha during the year under review. However disposing of the waste had been done by excavating pits in the land and waste disposed into them and closed the pits without being followed an environmental friendly methodology. Therefore many environmental problems were emerged.	It has been informed that, even though the requests for land acquisition had been made, the land could not be acquired. Therefore the solid waste management plan had been prepared and approved by the Sabha but it could not be implemented.	A waste management plan should be prepared and executed within the authoritative area of the Sabha.